

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

The Logistic Giant Emerge Amid the Pandemic
The Path to Success of FedEx Corporation

Maria Carolina Matias Correia de Ferreira Marafona
40801

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Nuno Vasconcellos e Sá

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Abstract

This dissertation aims to assess the fair value of FedEx Corporation stock as of December 31st, 2021 and give a recommendation as of January 4th, 2021. During the pandemic, the logistics industry was shaken-up, thus, firms were forced to readapt their businesses to deal with the economic slowdown, the airfreight capacity constraints and the increased demand for residential deliveries, triggered by the shift from physical to online shopping. Our recommendation is to buy FedEx Corporation's stock given that our price target is \$286.50 per share as of December 31st, 2021, which implies a 12-months total shareholder return of 11.4%.

Keywords: airfreight, e-commerce, logistics, pandemic.

Acknowledgments

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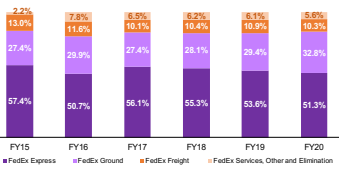
This report is part of the “The Logistic Giant Emerge Amid the Pandemic – The Outstanding Case of FedEx Corporation” report (annexed) and should be read as an integral part of it.

Table of Contents

COMPANY OVERVIEW	5
FEDEX EXPRESS	5
FEDEX GROUND	5
FEDEX FREIGHT	6
FEDEX SERVICES, OTHER AND ELIMINATION	6
OWNERSHIP STRUCTURE	6
BOARD OF DIRECTORS	6
FEDEX'S STRATEGY	7
STOCK PERFORMANCE.....	7
MACROECONOMIC CONTEXT AND MAIN DRIVERS.....	8
THE CURRENT PANDEMIC AND ECONOMIC RECOVERY	8
GLOBAL TRADE WARS.....	8
BIDEN'S ELECTORAL PLAN	9
MARKET OVERVIEW AND MAIN DRIVERS	9
EXPRESS SEGMENT.....	9
GROUND SEGMENT	11
FREIGHT SEGMENT.....	11
SERVICES, OTHER AND ELIMINATION SEGMENT	12
VALUATION	12
REVENUES FORECAST.....	12

Company Overview

Graph 1: FedEx Revenues



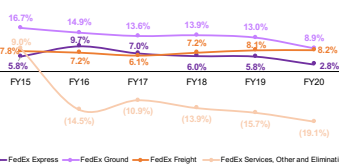
Source: FedEx Annual Reports

FedEx Corporation (previously Federal Express) was founded in 1971 by Frederick W. Smith, who is currently the CEO and the chairman, and has its headquarters in Memphis, Tennessee. FedEx's services are provided by the independent but collaboratively managed business segments: FedEx Express, FedEx Ground, FedEx Freight and FedEx Services, Other and Elimination.

FedEx Express

FedEx Express has contributed to more than 50% of total sales in FY20. However, this is one of the segments with the lowest operating margin (2.8% in FY20), but we expect it to reach 7.6% in FY21 as we see a recovery trend in the first two quarters. Moreover, this is the segment with the most international exposure with more than 50% of its revenues coming from outside the US.

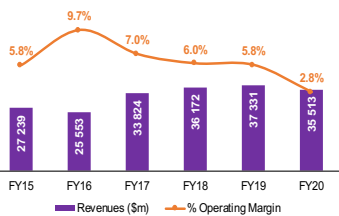
Graph 2: FedEx Operating Margins



Source: FedEx Annual Reports

FedEx Express offers time-definite package and freight shipping services that cover both US Domestic and International. Besides a money-back guarantee, it also provides real-time tracking and advanced customs clearance. In May 2016, FedEx Express acquired TNT Express to pursue its strategy of enhancing the road network in Europe and consolidate the firm's presence in Middle East and Africa, Asia-Pacific, and the Americas. Also, within this segment, FedEx SameDay offers a service available 365 days a year for US urgent shipments up to 150 pounds, while FedEx Delivery Manager allows US customers to customize deliveries by scheduling dates, locations and time of delivery. Currently, FedEx Express counts with an extensive logistics network with more than 245 000 employees, 98 000 drop-off locations, 680 aircraft, and 79 000 vehicles.

Graph 3: FedEx Express Historical



Source: FedEx Annual Reports

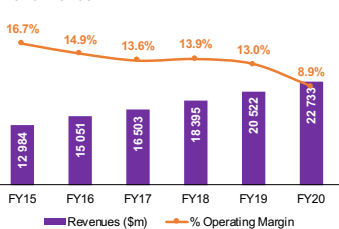
Despite no longer relying on US Postal Service (USPS) for last-mile deliveries services, FedEx renewed a contract until FY24 under which FedEx Express provides domestic air transportation for US Mail, Priority Mail, and Priority Mail Express. Moreover, FedEx Express offers international service transportation and delivery for the USPS, under a different contract.

In terms of pricing, besides the base price that depends on several factors such as zone, weight, size, demand, among others, FedEx Express implements additional surcharges: peak holiday surcharge and index fuel surcharge.

FedEx Ground

FedEx Ground is the fastest growing and the most profitable segment within FedEx, contributing to more than 50% of the total operating income. However, due to the pandemic, during FY20, FedEx Ground's operating margin decreased to 8.9% as a result of the rise in B2C e-commerce. We believe that FedEx will smooth its residential deliveries network, growing its operating margin up to 13.9% in the long-run. Also, we expect a margin improvement as B2B transactions recover.

Graph 4: FedEx Ground Historical Performance



Source: FedEx Annual Reports

FedEx Ground covers the small-package market in the US and Canada with its low-cost, money-back guarantee and day-certain service to business and residential delivery of packages weighing up to 150 pounds. Within this segment, FedEx Home Delivery offers a flexible delivery service for residential customers in the US, while FedEx SmartPost provides an affordable service focused on delivering high volumes of low-weight B2C packages. This service more oriented towards e-commerce will be automated using robots, in order to replace USPS in last-mile deliveries. Regarding pricing, FedEx Ground follows the same criteria as FedEx Express, adding holiday

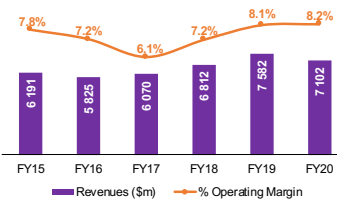
and fuel surcharges to a base price.

Recently, FedEx Ground expanded from six to seven operating days per week for residential deliveries to handle with the e-commerce demand during the pandemic. Besides, FedEx Ground has been collaborating with FedEx Express and FedEx Freight delivering urgent and hard-to-handle packages.

FedEx Freight

FedEx Freight, which represents nearly 10% of FedEx's sales, offers less-than-truckload (LTL) freight services across North America, Puerto Rico and the US Virgin Islands for both businesses and residences. Within this segment, FedEx Freight Priority serves customers that prefer to pay more to have their supply-chain needs fulfilled faster, while FedEx Freight Economy is used when customers prefer to save money in exchange for time. In FY19, FedEx Freight Direct was created to smooth ground's network, delivering heavy products ordered online for businesses and residences. We believe the cooperation of FedEx Freight with the remaining FedEx's segments will drive revenues and margins up in the near-term.

Graph 5: FedEx Freight Historical Performance



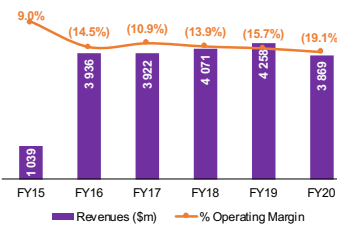
Source: FedEx Annual Reports

FedEx Services, Other and Elimination

FedEx Services accounts for less than 3% of total sales and integrates all the operating segments of FedEx, offering sales planning, marketing, information technology, customer service, technical support and other back-office support. FedEx Office also provides printing and shipping management services.

Corporate, Other and Elimination include other business segments such as FedEx Logistics, FedEx Trade Networks Transport & Brokerage, FedEx Cross Border, FedEx Supply Chain, FedEx Custom Critical and FedEx Forward Depot, as well as corporate headquarters and other costs not attributed to the core business.

Graph 6: FedEx Services, Other and Elimination Historical Performance



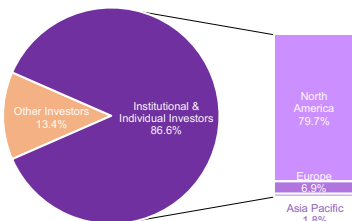
Source: FedEx Annual Reports

Ownership Structure

FedEx, traded in New York Stock Exchange (NYSE) under the ticker "FDX", has a market capitalization of \$68 818 million as of December 31st, 2020, represented by 265 070 592 shares of which 77.7% are held by institutional holders, 8.9% by individual entities and 13.4% by other investors. Moreover, FedEx's institutional and strategic shareholders are mainly from North America (79.7%), Europe (6.9%) and Asia Pacific (1.8%). Currently, the founder and CEO of FedEx, Frederick W. Smith, owns approximately 7.4% of the total shares.¹

Since 2016, FedEx's Board of Directors authorized a share repurchase program up to 25 million shares with no expiration date. Therefore, until May 31st, 2020, 19.9 million shares were already repurchased. Also, FedEx paid an annual dividend of \$2.6 per share in FY19 and FY20 and we expect to remain the same in the following year due to Credit Agreements restrictions.

Graph 7: Ownership Structure



Source: Bloomberg

Board of Directors

Frederick W. Smith, founder of FedEx and former President, CEO and Chairman of FedEx Express, is the Chairman and CEO of FedEx Corp. since 1998. Smith jointly with other 12 members compose the Board of Directors of FedEx Corp.

¹ Bloomberg

Table 1: Board of Directors

Frederick W. Smith	Chairman and CEO of FedEx Corporation
Mike Lenz	New CFO of FedEx Corporation
Donald F. Collieran	President and CEO of FedEx Express
Robert B. Carter	Co-Presidents and Co-CEOs of FedEx Services
Rajesh Subramaniam	
Henry J. Maier	President and CEO of FedEx Ground
John A. Smith	President and CEO of FedEx Freight
Brian Philips	President and CEO of FedEx Office
Dr. Udo Lange	President and CEO of FedEx Logistics

Source: FedEx Public Information

In early March 2020, Mike Lenz, FedEx Corporate Vice-President and Treasurer, was announced as the new FedEx CFO, following the retirement of Alan Graf. Mike started his journey as CFO in September 2020, but we do not expect FedEx's governance to change as the new CFO's strategy is aligned with the previous one.

FedEx's Strategy

Acquisitions

Although its strong presence in the United States, FedEx has been investing abroad through the acquisition of other logistics firms, a strategy that we expect to be suspended in the short-term. Since TNT acquisition in 2016, the firm is passing through a costly integration process within FedEx Express, a key step to strengthen its European network, which we expect to be completed by FY22. Once concluded, the firm will be fully integrated in Europe offering a faster, efficient, and cheaper service to its customers, which will improve the operating margin.

On December, 28th 2020, FedEx closed the acquisition of ShopRunner, a Chicago-based e-commerce platform that connects more than 100 brands with millions of customers and offers marketing and omnichannel services, for an undisclosed value. According to FedEx's 2Q21 earnings call, ShopRunner will be acquired with cash reserves and it will not be material. This acquisition will be integrated within FedEx DataWorks, the new FedEx Services organization created to improve e-commerce experience offering innovative data-driven and digital services.

Modernization & Innovation

FedEx has recently announced a partnership with Dell Technologies and Switch to create a large-scale multi-cloud edge infrastructure that empowers organizations in their real-time decisions. Also, FedEx launched FedEx Surround, a partnership with Microsoft to optimize customers' inventory management using real-time data. Besides, in partnership with DEKA Development and Research Corp., FedEx is developing a robot called FedEx SameDay Bot to do same-day and last-mile deliveries. At the same time, FedEx Express is modernizing its Memphis and Indianapolis hubs and its aircraft fleet to become more fuel efficient.

On the other hand, the pandemic raised the need of having a logistics firm capable of distributing vaccines worldwide. Therefore, FedEx announced SenseAware ID, a Bluetooth technology that provides real-time information regarding changes in temperature, humidity, pressure and route in time-critical shipments, available from November 2020 to healthcare, aerospace and retail customers of FedEx Express.

E-commerce

FedEx has expanded US ground residential delivery to 7-days a week and integrated SmartPost into the ground network in order to accommodate the rising e-commerce demand. Moreover, FedEx Ground has been investing in expanding its capacity through hiring staff and independent drivers to deal with the peak in B2C e-commerce demand. As a consequence, FedEx Ground announced a price increase to smooth ground's network and boost the operating margin as well. Also, FedEx's investments in e-commerce may attract large retailers that are focused on winning the online share battle to build a long-term relationship.

Stock Performance

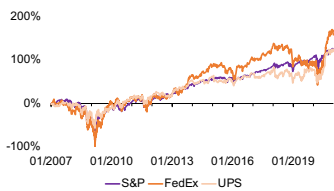
FedEx's stock performance was driven by four major events from 2007 to 2020. Firstly, the subprime crisis led to nearly 100% slump in FedEx's cumulative returns, as a consequence of the

Table 2: FedEx Latest Acquisitions

Year	Acquisition Details
2015	GENCO Distribution System, Inc. for \$1.4b
2016	TNT Express for \$4.9b
2017	Northwest Research, Inc. for \$50m P2P Mailing Limited for \$135m
2018	Joint Venture with Swiss Post
2019	Flying Cargo Express Ltd. for \$67m
2020	ShopRunner (value not disclosed)

Source: FedEx Public Information

Graph 8: FedEx Stock Performance
(vs S&P500 and UPS)



Source: Bloomberg

global economy slowdown. Secondly, in 2015, the announcement of TNT acquisition was misperceived by investors, generating a drop in FedEx's returns. Thirdly, from 2018 to 2019, FedEx underperformed the market once again because of the split with Amazon, the results below investor's expectations, and later, the trade wars between the US and China which imposed restrictions to global trade, driving down FedEx's revenues.

Finally, FedEx's returns reached the bottom by mid-March due to the COVID-19. However, the global lockdown raised the demand for residential deliveries which allied to FedEx strategy to deal with this peak, originated a positive market reaction. From March until now, FedEx stock grew 168%, reaching in 52-weeks of trading the maximum price per share of \$305.66 by December 9th, 2020.

When comparing FedEx with UPS, FedEx's stocks offer higher returns while UPS is underperforming the market for the last 5 years, even during the pandemic which benefited logistics firms. We believe that FedEx is consistently outperforming UPS for the last year due to its strategy dealing with COVID-19 and the e-commerce boom that has been leading to results that exceed investors' expectations.

Macroeconomic Context and Main Drivers

The Current Pandemic and Economic Recovery

The current pandemic came to twist the GDP growth in recent years as governments adopted lockdown policies. During 2020, we assisted to a decrease in real GDP globally (-2.4% and -4.4% growth, for US and world, respectively). Still, it is too soon to say when it is going to recover and at what pace, since there is a lot of uncertainty. Nevertheless, it is expected that during 2021, as soon as the COVID-19 vaccine becomes available worldwide, the economy may rebound back to pre-COVID levels. Moreover, this crisis is different from others given the restrictions imposed. On the one hand, B2B activity decreased and so the international trade, affecting FedEx Express. On the other hand, the current situation boosted the demand for online shopping and put the e-commerce growing at rates never seen before, prompting a rise in demand for ground services. Also, the current situation restricted traveling and, because of that, some firms that transported people and cargo, suspended their activity, benefiting FedEx Express Freight, which translates into higher margins and market share.

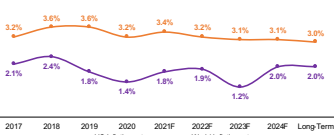
The pandemic may have a small impact on the inflation rate, but still it is far from the danger of deflation. Thus, it is expected a 2% and 3% long-term inflation rate for the US and the world, respectively.

Graph 9: Real GDP Growth (%)



Source: Federal Reserve and IMF

Graph 10: Inflation Rate (%)



Source: Federal Reserve and IMF

Global Trade Wars

In 2016, Donald Trump was elected the President of the United States for a mandate of 4 years under the commitment of "mak(ing) America great again". This statement emerged from the need of improving the trade deficit to decrease the dependence on imports, rising the demand for American products to further create jobs. Accordingly, from 2018 onwards, the US began a trade war by imposing tariffs to imports from China and Europe, which, in turn, retaliated with the same measures. In fact, according to graph 11, these protectionist measures deteriorated the world trade growth for the last three years. These trade wars directly affect FedEx's business, mainly its International Express segment, whose revenues and profitability decrease when global trade restrictions are imposed.

Graph 11: World Trade Growth



Source: World Trade Organization

Biden's Electoral Plan

In 2020, Joe Biden, representative of the Democratic party, defeated the Republican Donald Trump in the US elections. Therefore, from now on, we expect the US will mitigate international conflicts and promote the free trade while fixing strategic alliances broken during Trump's mandate. Hence, FedEx will benefit from the "free trade" policy since FedEx Express revenues rely on international trade as the fewer trade restrictions the higher the volume of transactions, mainly B2B transactions translating into higher margins. Besides, we expect US alliances with the EU to smooth the TNT integration, favoring revenues growth.

In addition, regarding economy and tax, Biden supports the raise of the minimum wage up to \$15 per hour and the increase in corporate tax from 21% to 28% as well as the reversal of other tax cuts implemented by Trump. Consequently, as an US-based company, in our worst-case scenario, we assume FedEx would pay higher income taxes for at least the next four years, lowering cash flows.

Market Overview and Main Drivers

Big logistics firms operating worldwide, namely UPS and FedEx, offer premium delivery services charging higher rates while providing more time-efficient services and other premium services. Furthermore, there are high barriers to entry to directly compete with UPS and FedEx, as it is required a huge upfront investment to acquire aircrafts, ground vehicles and warehouses to provide a worldwide coverage. These will contribute for FedEx maintaining a ROIC above its cost of capital, even in the long-run, creating value to its shareholders.

The pandemic accelerated an already expected shift in behaviour towards online shopping, demanding a fast response by the logistics firms, and we do not expect this behaviour to revert in the near future. According to McKinsey², 37% of the global consumers plan to shop more online and 60% of them aim to stick with this new shopping habits. In fact, in the last two years, FedEx has been investing in its ground network, with the expansion from six to seven days a week, the integration of SmartPost for last-mile and the collaboration with FedEx Freight to deliver heavier items to residences. This strategy pushed for high growth and revenue quality, preparing FedEx for the "new normal" in the shopping habits. Therefore, we expect a sustainable higher margin for FedEx Ground.

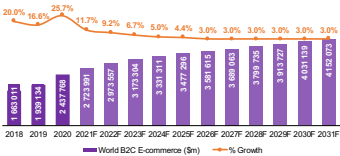
High-volume package shippers are developing their own logistics network to vertically integrate their businesses. However, we believe that those shippers are not direct competitors of FedEx as they are not focused on operating on a large scale, instead, they aim to be independent from logistics firms while serving their customers. For example, Amazon plans to develop their own logistics network to serve its customers and not become a direct competitor of FedEx, as it could benefit its e-commerce partners by lowering the logistics costs for them. In fact, nowadays, FedEx does not work with Amazon, hence, Amazon may not be a threat for FedEx, but it can be for UPS (11.6% of revenues in FY19 came from Amazon).

Express Segment

² McKinsey & Co. 2020. "Holiday Season: Navigating shopper behaviors in the pandemic." Accessed November 15. <https://www.mckinsey.com/business-functions/marketing-and-sales/solutions/periscope/our-insights/surveys/2020-holiday-season-navigating-shopper-behaviors-in-the-pandemic>

This business segment belongs to a market that is particularly highly competitive and highly price-, time- and capacity-sensitive. The main competitors are UPS, regional delivery companies, USPS and some high-volume package shippers, DHL, ZTO Express, XPO Logistics, DPD, General Logistics Systems, foreign postal authorities, regional carriers, passenger airlines and all-cargo airlines.

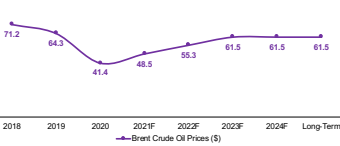
Graph 12: World B2C E-commerce Market



Source: Statista

Within Express, the Package segment has 4 main drivers: the global economy (measured by the real GDP), e-commerce demand, price of fuel (measured as a proxy by the Brent price), and international trade. We consider the global economy and international trade activity as drivers given the fact that this segment depends a lot on the world activity to thrive, since FedEx Express transports physical goods between companies, some of them in different geographies. E-commerce is also a driver since businesses need logistics firms to deliver packages to online shoppers. Lastly, we believe the fuel price is also a driver as it largely impacts the cost structure of logistics companies and so, the price to transport goods is adjusted with the fuel indexed surcharges. Since this service is more expensive compared to the ground segment (because the consumer can decide the time and day the order will arrive) and consumers are highly price-sensitive, any adjustments on the price negatively affect the demand for this service.

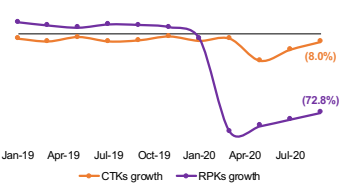
Graph 13: Brent Oil Price Evolution



Source: EIA and Deloitte

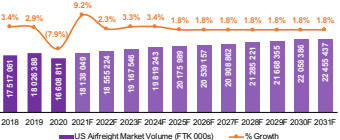
With the current pandemic and, consequently, the lockdown policies established by most countries, there was a shift in behaviour by consumers, going from a preference for physical stores to buying online, thus, increasing the e-commerce demand. However, e-commerce huge growth will not persist forever, therefore, the growth rates will also be lower. This is in line with the data from Statista for both US and the entire world B2C e-commerce segment and we estimate, after 2025, growth rates for US B2C and world B2C segments to be the same as their respective inflation rates (2% and 3%, respectively). Moreover, it was recently announced a vast portfolio of vaccines with great efficacy, thus, we expect the US economy and global supply chains to reopen soon and this will help to slowly recover B2B segment for both FedEx Express and Ground, translating into higher margins. Additionally, the price of fuel has also collapsed in 2020 due to a decrease in demand and conflicts among suppliers. The demand decreased dramatically as the pandemic forced most of the governments to adopt lockdown policies and restrict travels, causing fuel prices to decrease. Also, Russia and Saudi Arabia, entered in a price war, forcing, also, fuel prices to decline. However, it is expected a recovery in the price of fuel even in 2021, mainly due to an increase in demand.

Graph 14: Global Passenger (RPKs) and Cargo (CTKs) Flown Growth



Source: IATA

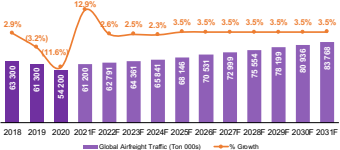
Graph 15: US Airfreight Market Volume



Source: MarketLine

The current situation in the airfreight market will keep benefiting FedEx and UPS, as long as the pandemic continues to widespread, giving the two logistics giants most of the market control. The pandemic restricted traveling and, because of that, some passenger flights that transported people and cargo, suspended their activity. Despite already announced, the uncertainty of when the population will be fully vaccinated and when the economy will fully reopen, makes it hard to predict when the international freight capacity will come back to pre-COVID 19 levels. We believe that these conditions will prevail at least until 2023, depending on the rate of recovery in the international passenger travel.

Graph 16: Global Airfreight Market Volume



Source: MarketLine and Statista

In the airfreight segment, the drivers remain the same but with more focus on the price of fuel, as consumers look for alternatives when fuel prices rise, mainly when there is low or even negative economic growth. It is worth mentioning that from 2025 onwards, we estimate that the US and worldwide airfreight market volume will grow at the US and worldwide real GDP growth rate, respectively.

Ground Segment

FedEx Ground operates in a competitive market where customers are sensitive to price variations. Its main competitors are UPS, the USPS, XPO Logistics, J.B. Hunt Transport Services and other regional delivery carriers. Besides, following the lockdown and the shift from physical to online shopping, some high-volume package shippers that complement their business providing last-mile deliveries at lower rates, such as Walmart, are the most recent peers of FedEx Ground.

This operating segment reached its demand peak during the pandemic, due to the e-commerce rise that further resulted in an increased volume of residential deliveries, largely surpassing B2B transactions volume. Therefore, FedEx Ground revenues are mostly dependent on the US residential deliveries, thus, we believe that B2C e-commerce market growth is a good driver for how residential deliveries will behave in the near-term. On the other hand, we consider the real GDP growth rate the best proxy for how B2B deliveries will evolve in the near-term assuming it implicitly reflects the industrial production outcome.

During the pandemic outbreak, 52.7%³ of the US consumers stated they would avoid shops in general, which leads us to conclude that at least until the worldwide distribution of the COVID-19 vaccine, the physical shopping will not recover to levels prior to the pandemic. Besides, FedEx's management stated that the pandemic behavior shift led the firm to project 111 million packages per day by FY26, mostly justified by e-commerce growth.⁴ In fact, we believe that B2C e-commerce has margin to grow as in the 1Q20 it corresponded only to 11.8% of total US retail sales, a figure that is expected to grow to 14.3% by 3Q20 (graph 17).⁵ According to Statista estimates, the US B2C e-commerce will increase 8.7% and 7.1% in 2021 and 2022, respectively. Thereafter, we estimate B2C e-commerce growth to stabilize, approaching the US inflation rate (2%) from 2025 onwards. This means that, once the pandemic is over, B2C transactions will continue driving FedEx Ground's revenues but not that much as currently, since we believe B2B transactions will slightly increase its weight on ground revenues.

Regarding B2B transactions, which are decreasing due to the restrictions to commercial and social activities to contain the contagion, we estimate a modest recovery up to 4.2% in 2021 and 3.2% in 2022, in line with the real GDP growth.

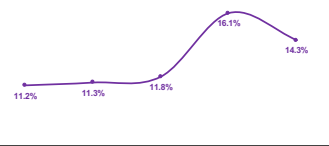
Freight Segment

FedEx Freight operates in the LTL and truckload freight market where the main competitors are YRC Worldwide (which includes YRC Regional Transportation and YRC Freight), XPO Logistics, UPS Freight, Old Dominion Freight Line, J.B. Hunt Transport Services, ABF Freight (an ArcBest company), and SAIA.

Considering the core business of this FedEx's segment, we believe that, allied to FedEx's market share evolution, the US LTL freight market size is a fair driver for how FedEx's freight revenues will perform during the forecasting period.

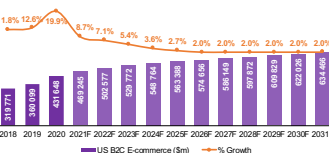
According to Statista, after the contraction verified in 2020 due to the pandemic, the US LTL

Graph 17: US Retail E-commerce Sales Growth



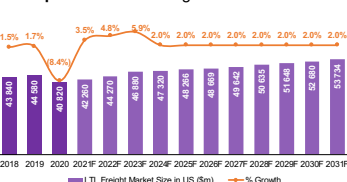
Source: US Department of Commerce

Graph 18: US B2C E-commerce Market



Source: Statista

Graph 19: US LTL Freight Market



Source: Statista

³ Statista. 2020. "Coronavirus: impact on e-commerce in the U.S". Accessed December 1. <https://www-statista-com.eu1.proxy.openathens.net/topics/6321/coronavirus-covid-19-impact-on-e-commerce-in-the-us/>

⁴ 2Q21 FedEx Earnings Call

⁵ US Department of Commerce. 2020. "Quarterly Retail E-commerce Sales in the United States". Accessed December 15. https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

market size will face a gradual recovery until 2022, the year in which the freight market size will reach pre-COVID levels, nearly \$44 270 million. Then, 2023 is a year of strong growth (5.9%) in freight market value, reaching \$46 880 million. Afterwards, the US LTL freight market will grow at the long-term US inflation rate (2%), thus, we expect it to reach \$53 734 million size by 2031.

Services, Other and Elimination Segment

All the logistics firms previously mentioned as competitors are also competitors of FedEx Services and Other, because they all have a business segment that provides supportive services. Furthermore, start-up firms, the emerging trend within the logistics market, are also considered competitors of FedEx Services and Other, as they provide tracking, marketing, e-commerce and supply chain services.

Valuation

Revenues Forecast

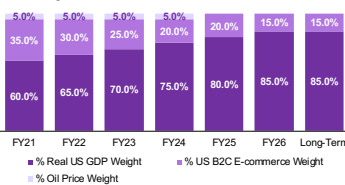
- FedEx Express

For FedEx Express, there are two main segments: Package and Freight.

Within the Package segment there are three main sub-segments: US Domestic Package (includes all transactions within US), International Export (includes all transactions between two or more countries) and International Domestic (includes all domestic transactions within a country except US).

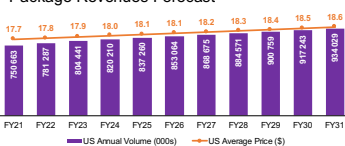
In our view, the US real GDP growth rate, US B2C e-commerce growth and oil price growth drive US domestic volume. Despite the huge demand for e-commerce, this service is more expensive than ground (since customers can choose the exact date and time), hence, we believe the economic growth should have the highest weight on our forecast (60%), followed by US e-commerce growth (35%) and oil price change (5%). In FY21, the surge in e-commerce demand as a result of the current pandemic keeps positively impacting volume, but we will decrease its weight from FY23 onwards to 25% and even further in the following years as B2B segment recovers. Furthermore, after FY24, the oil price change will not have any weight as, in the long-term, GDP will most likely determine the demand (with 85% weight). Thus, we forecast a modest 3.3% CAGR₂₀₋₂₅, with most of the highest volume growth coming in FY21 (5.3% YoY growth) as FedEx is one of the two main carriers of the COVID-19 vaccine in the US and with the increase in importance of B2C transactions. From FY27 onwards, we estimate a modest 1.8% volume growth (slightly lower than the US GDP real growth). When it comes to pricing, we expect a decrease in yields for FY21, in line with the first two quarters, to \$17.70, mainly driven by lower fuel surcharges and lower weight per package (residential delivers are usually smaller than B2B deliveries). However, as the oil price rises again and B2B segment recovers from the current pandemic, we forecast the price to increase at 0.5% each year, slightly surpassing the highest historical price for this segment (in FY19) by FY31. The expected 5.3% volume increase in FY21 is partially offset by a depressed yield. Thereafter, we foresee a revenue growth between 4.6% and 2.3%.

Graph 20: FedEx Express US Domestic Package – Revenues Drivers



Source: Own Estimates

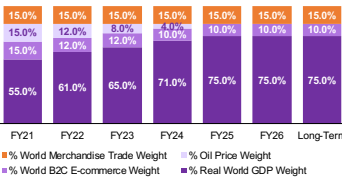
Graph 21: FedEx Express US Domestic Package Revenues Forecast



Source: Own Estimates

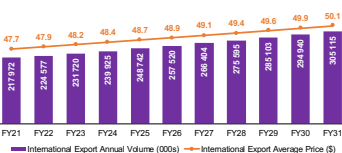
Secondly, we believe the world real GDP, world B2C e-commerce, oil price and the world merchandise trade growth are the main drivers for the International Export sub-segment. With the economy re-opening around the world and with the recovery of industrial production, mainly in Asia-Pacific and Europe, there is an opportunity for FedEx to improve its B2B segment. Indeed,

Graph 22: FedEx Express International Export Package – Revenues Drivers



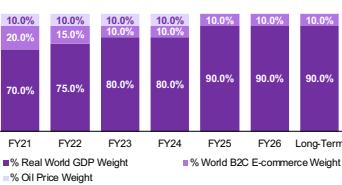
Source: Own Estimates

Graph 23: FedEx Express International Export Package Revenues Forecast



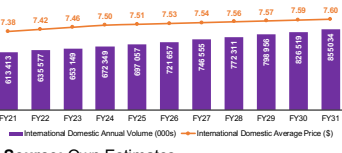
Source: Own Estimates

Graph 24: FedEx Express International Domestic Package – Revenues Drivers



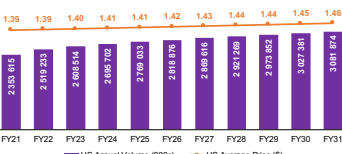
Source: Own Estimates

Graph 25: FedEx Express International Domestic Package Revenues Forecast



Source: Own Estimates

Graph 26: FedEx Express US Freight Revenues Forecast



Source: Own Estimates

Rajesh Subramaniam (FedEx’s Chief Operating Officer) mentioned in the last earnings call that the inventory levels are “at all-time low”, so we foresee a resumption in the supply chains of most businesses. Thus, being a fair proxy for how production around the world is evolving, we forecast GDP growth rate to have the highest weight (55%) in the volume forecast. Nevertheless, we believe oil price growth and world merchandise trade growth deserve a considerable weight (15% each), as this sub-segment involves a larger distance and countless trades around the world. Also, we consider the e-commerce boom in FY21 (15% weight), but we will slightly decrease as B2B recovers. Moreover, although we await a recovery in world GDP and international trade with the control over the pandemic, we also expect a rise in oil prices with the end of lockdown policies and with an increase in travel and business activity. Hence, we forecast volume to grow 2.0% in FY21 with a gradual increase to 3.5% (in line with world GDP growth rate) by FY26. In terms of yields, we forecast a decrease in price for FY21, in line with the first two quarters, to \$47.70 (representing a 2.3% YoY decrease), due to the same reasons as US Domestic package (lower fuel surcharges and lower weight per package). Thereafter, we expect a gradual rise in prices (0.5% per year).

Thirdly, we forecast the International Domestic sub-segment based on world GDP real growth rate, the world e-commerce demand and oil prices. In our view, the world GDP real growth rate is the driver with the highest weight (70%), followed by e-commerce growth (20%), given that residential consumers usually prefer ground’s services that trades time for price. Moreover, this segment will be the one that will mostly benefit from the full TNT integration in FY22, mainly in Europe. Therefore, the volume will grow at 3.3% CAGR₂₀₋₂₅ and 3.5% each year after. On the other hand, price will follow the first two quarters trend and reach a \$7.38 per package in FY21, and we forecast it to reach \$7.60 per package by FY31, a growth well below inflation since FedEx will face some local competition.

To sum up, we expect an overall 3.2% CAGR₂₀₋₃₁ for the package unit, surpassing \$39 billion in revenues.

On the other hand, the Freight segment of FedEx Express is composed by 2 sub-segments: US Freight and International Freight.

Firstly, for US Freight, we forecast volume in freight ton-kilometers (FTK) units⁶, considering the total US airfreight market and FedEx market share. We expect FedEx to keep reinforcing its position as a leading player in the US freight market, thus, we forecast its market share to grow from 62% in FY21 to 63% by FY23. Accordingly, FY21 will follow the trend of these first two quarters, reaching an annual volume of 2 354 million pounds with a modest growth afterwards until reaching a steady growth of 2.3% by FY25. We expect the yields to be relatively stable in line with past trends, increasing no more than 0.5% each year.

Secondly, we believe International Freight sub-segment volume will increase at a 9.0% CAGR₂₀₋₂₅. The passenger flights play a big role accounting for 59% of the global air cargo traffic in 2019⁷. According to IATA, most of the passenger capacity around the world is only expected to be back to pre-COVID levels by 2023, with Europe to US passenger capacity only by 2024. Despite this slower passenger capacity recovery that reflects into a slower airfreight capacity recovery, we

⁶ In FY19, FedEx US Freight had transported a total volume of 9,958 million FTK which was equivalent to a 2 192 million freight pounds, according to Statista. This figure will be a reference point for a conversion.

⁷ Statista. 2020. “Freight-ton kilometers share of air cargo traffic worldwide in 2019 and 2039, by type”. Accessed December 1. <https://www-statista-com.eu1.proxy.openathens.net/statistics/535543/worldwide-freight-ton-kilometer-share-belly-cargo-and-main-cargo/>

expect a fast one for the air cargo demand, as businesses need their supply chains to keep flowing while they prepare for the economic recovery. These facts combined will create a huge upside potential for FedEx to keep gaining market share and pricing power. Thus, we forecast the market share to rise to 4.7% in FY21 (from 4.0% in FY20) and reach 5.3% of global airfreight market by FY24, taking advantage of this constraint capacity environment to consolidate its position in the international freight segment. From FY25 onwards, we forecast volume growth rate to decrease to 3.5% by FY26, as we expect the airfreight market to grow in line with long-term world GDP real growth rate and to maintain the 5.3% market share. In our view, with the long-term relationships FedEx is establishing during this international constraint airfreight capacity, it will be able to sustain a 5.3% market share. In terms of pricing, there is a mix of forces. While we can see a downtrend for the more economic service price, mainly driven by lower fuel surcharges, the increased priority service yield is outpacing it. Thus, we forecast a small change in price from \$0.81 in FY20 to \$0.82 in FY21 (1.0% YoY growth). After FY21, we foresee small increases never exceeding FY18 (\$0.87 price). Thus, we expect this segment to grow considerably until FY24, driven by the increase in market share and pricing power due to international airfreight capacity, reaching a \$6 304 million in revenues and then, slightly increasing to \$8 249 million by FY31.

Despite FedEx Express has a segment named “other”, it is immaterial and, thus, we estimate it to be 2.1% of FedEx Express revenues, in line with the past trend.

■ FedEx Ground

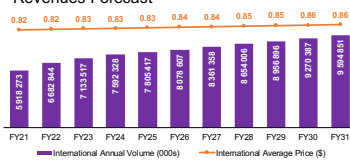
FedEx Ground is split into two business units: FedEx Ground US, which accounted for 98% of total ground revenues in FY20, and FedEx Ground International.

FedEx Ground US relies exclusively on residential and business deliveries throughout the US, hence, we believe that a combination between the US B2B transactions, the US B2C e-commerce evolution and FedEx’s pricing power will drive FedEx Ground US’ revenues.

Firstly, we estimate FedEx Ground US’ annual volume to grow at a rate weighted by the US B2B and US B2C transactions growth. Accordingly, we expect that until the worldwide distribution of COVID-19 vaccine or virus extinction, which may happen until FY22, physical shopping will be restricted. In this regard, B2C e-commerce growth will have a higher impact on ground’s annual volume growth until then (80% vs 20% of B2B weight), which results in a weighted growth of 11.8% (FY21) and 7.2% (FY22) equivalent to 3 151 million packages delivered by FY22. Thereafter, as B2B transactions are the most profitable for FedEx, we believe that, once the pandemic ends, B2B transactions, measured by the real GDP growth as a proxy, will gradually recover their weigh on ground’s volume growth tending to 30% versus 70% of B2C weight by FY31. Therefore, with a weighted growth rate ranging from 5.5% to 1.9%, we estimate FedEx Ground US will increase its 3,151 million packages delivered in FY23 up to 3 787 million packages by FY31.

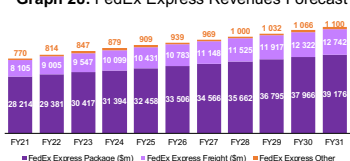
Secondly, regarding pricing, following FedEx 1Q21 earnings call, we forecast the average price per package to increase 4.9% in FY21 to \$9.37 to offset the costs incurred during the pandemic and, at the same time, reflect the excessive demand for residential deliveries. Additionally, in 2Q21 earnings call, FedEx stated that the surcharges applied during the pandemic will be kept as a component of ground’s price even after the pandemic ends as a result of the customers shift to online shopping. Consequently, we foresee a higher average price per package than in the past, growing 2% in FY22 and 1% yearly from FY23 onwards to keep price competitiveness. As a result, we estimate a price per package of \$10.45 by FY31.

Graph 27: FedEx Express International Freight Revenues Forecast



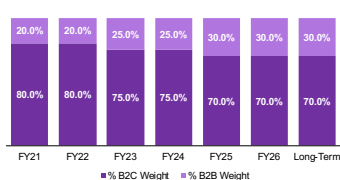
Source: Own Estimates

Graph 28: FedEx Express Revenues Forecast



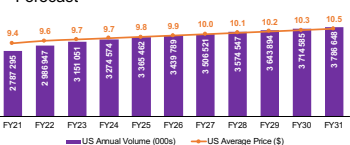
Source: Own Estimates

Graph 29: FedEx US Ground – Revenues Drivers



Source: Own Estimates

Graph 30: FedEx US Ground Revenues Forecast



Source: Own Estimates

In the US, UPS is specialized in providing ground services (which represented 44% of UPS revenues in FY19), emerging as the leading player in the ground market, followed by FedEx. However, we believe that FedEx efforts to efficiently deal with the boom in e-commerce will empower it to strengthen its position in the ground market. Consequently, we do not expect FedEx to lose market share in the US ground segment, instead, FedEx may gain if the firm continues to build partnerships with e-commerce platforms and small and medium businesses, while UPS may be weakened by the loss of Amazon as a customer.

In conclusion, we estimate FedEx Ground US's annual volume and average price to grow at a 3.9% and 1.4% CAGR₂₀₋₃₁ from FY20 to FY31, respectively, meaning that FedEx Ground US will reach \$39 571 million revenues by FY31.

In turn, FedEx Ground International provides ground services to Canada, a market similar to the US in terms of economic and consumer trends. Likewise, the shift to online shopping and the contraction of B2B transactions still applies to this ground's segment. Therefore, we foresee that FedEx Ground International will evolve at the same pace as the US ground division, so we estimate its revenues to represent 2.2% of FedEx Ground US revenues.

To sum up, we forecast FedEx Ground revenues to be \$40 422 million by FY31.

- FedEx Freight

FedEx Freight revenues are further split into US and international revenues.

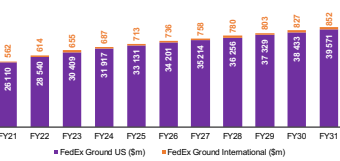
The FedEx Freight US division provides road freight services in the US and it was heavily affected by the pandemic due to the nationwide businesses closure. However, after the contraction of 6.3% in FY20, we expect the US Freight revenues to recover in the near-term, surpassing pre-COVID levels by FY23. Firstly, according to Statista estimates, the US LTL market will recover at a CAGR₂₀₋₂₅ of 2.1% from \$43 013 million in FY20 to \$47 714 million in FY25⁸. Afterwards, we estimate the market value to grow 2% per year, in line with the US inflation, reaching \$53 734 million by FY31.

Secondly, FedEx Freight has been the US leading firm within the US LTL and truckload freight market, hence, we do not expect that FedEx will lose market share in the future years. Indeed, we believe that FedEx Freight will gradually improve its market position throughout the years, reaching 17.3% of market share by FY25 and thereafter. In our perspective, FedEx Freight will keep its leadership position considering the strong proved track record throughout the latest years in which FedEx Freight has been gaining market share and growing at a double-digit rate prior the pandemic. Besides, we consider the partnership with the ground segment a chance to gain market share in FedEx Freight Direct, the service in which FedEx Freight delivers heavy and hard-to-handle packages to residences.

FedEx's strategy for its freight segment is geared towards enhancing revenue quality, through consolidating its leadership position, while improving operating efficiency to boost margins. Accordingly, we estimate that FedEx Freight US' revenues will grow at a CAGR₂₀₋₃₁ of 2.7%, reaching \$9 296 million in FY31.

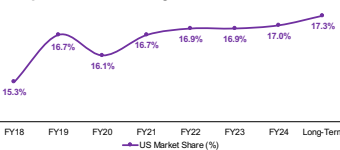
On the other hand, the international division is geared towards cargo deliveries to US Virgin Islands and Puerto Rico, whose markets are immaterial compared to the US. As such, we forecast international revenues as 2.8% of US Freight revenues, in line with the past trend, as we do not

Graph 31: FedEx Ground Revenues Forecast



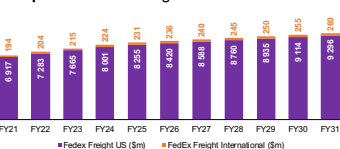
Source: Own Estimates

Graph 32: FedEx Freight US Market Share



Source: Own Estimates

Graph 33: FedEx Freight Revenues Forecast



Source: Own Estimates

⁸ We adjusted these market estimates to fit within FedEx fiscal year.

expect any major changes.

In the end, we estimate FedEx Freight revenues to reach \$9 556 million by FY31, representing a 2.7% CAGR₂₀₋₃₁.

▪ FedEx Services, Other and Elimination

In December 2020, FedEx announced ShopRunner’s acquisition, an e-commerce platform, that will be integrated within FedEx Services. Accordingly, we estimate FedEx Services revenues to grow from \$22 million in FY20 to \$64 million and \$114 million in FY21 and FY22, respectively.

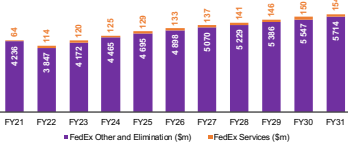
We estimate FedEx Services revenues to be 0.15% of the three main segments revenues, as we believe this segment will evolve in line with the overall FedEx’s business. Accordingly, we forecast FedEx Services to reach \$154 million of revenues by FY31.

On the other hand, and following the past trend, we estimate FedEx Corporate, Other and Elimination to be 5.9% of the revenues of the remaining FedEx’s operating segments until FY31, reaching \$6 063 million by FY31.

▪ Revenues Summary

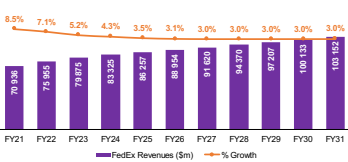
According to our forecasts, FedEx revenues will grow from \$69 217 million in FY20 to \$91 327 million in FY25, mostly justified by the accelerated growth of e-commerce which will lead ground revenues to grow at 8.3% CAGR₂₀₋₂₅, followed by the sustained growth of the express segment boosted by TNT integration within Europe and a constraint in the international freight market whose revenues are estimated to grow at 4.3% CAGR₂₀₋₂₅. Moreover, from FY26 onwards, we foresee a stable total revenues growth at 3% CAGR₂₆₋₃₁ reaching \$109 215 million by FY31.

Graph 34: FedEx Services, Other and Elimination Revenues Forecast



Source: Own Estimates

Graph 35: FedEx Revenues Forecast



Source: Own Estimates